



AUDITOR - GENERAL  
SOUTH AFRICA

Auditing to build public confidence

## AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE TLOKWE CITY COUNCIL

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the accompanying financial statements of the Tlokwe City Council, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages [XX] to [XX].

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Basis for qualified opinion**

### **Accumulated Surplus**

7. I was unable to obtain sufficient appropriate audit evidence for “Net gains/losses not recognised in the statement of financial performance” of R9 461 015 included in the statement of changes in net assets for the previous financial year. The municipality’s records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the occurrence, completeness, accuracy, cut-off and classification of net gains/losses not recognised in the statement of financial performance of R9 461 015 included in the statement of changes in net assets for the previous year.

### **Cash flow statement**

8. I was unable to obtain sufficient appropriate audit evidence for the following disclosures in the cash flow statement for the previous year’s amount:
- Accumulated surplus of R33 967 565 included in cash flow from financing activities.
  - Non cash flow items of R11 185 562 included in the calculations of cash generated from operations of R33 156 582.
  - Non cash flow items of R25 952 309 recognised in the statement of financial performance not included in the calculation of cash generated from operations of R33 156 582.

The municipality’s records did not permit the application of alternative procedures. Consequently I was unable to satisfy myself as to the accuracy, completeness and presentation and disclosure of the cash flow statement for the previous year.

### **Expenditure**

9. I was unable to obtain sufficient appropriate audit evidence for expenditure of R7 258 913 included in the statement of financial performance. The municipality’s records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the occurrence, completeness, accuracy, cut-off and classification of expenditure of R7 258 913 included in general expenses of R88 460 379 in the statement of financial performance and disclosed in note 36 to the financial statements.

### **Property, plant and equipment**

10. I was unable to obtain sufficient appropriate audit evidence for adjustments of R121 912 789 and R95 148 017 made to the current year opening balance of property, plant and equipment of R228 095 904 and the opening balance of accumulated depreciation of R386 412 729 respectively, included in R716 225 325 as disclosed in note 7 and in the statement of financial position. The municipality’s records did not permit the application of alternative audit procedures. Furthermore it was impracticable to quantify the resulting misstatement on the accumulated depreciation and depreciation due to the control weaknesses identified, consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights and obligations, completeness, and valuation and allocation of the closing balance of property, plant and equipment of R758 370 796 disclosed in note 7 to the financial statements.

### **Qualified opinion**

11. In my opinion, except for the effects of the matters described in the basis of qualified opinion paragraphs the financial statements present fairly, in all material respects, the financial position of Tlokwe City Council as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters:



### **Unauthorised, irregular and fruitless and wasteful expenditure**

12. As disclosed in note 39 to the financial statements, unauthorised expenditure of R45 960 910 was incurred due to overspending of the budget mainly in the budget and treasury office and in the office of the municipal manager. R24 798 634 of this was due to the airport upgrade which was originally planned to be performed in conjunction with Provincial Government.
13. As disclosed in note 39 to the financial statements, irregular expenditure of R95 235 050 was incurred due to non compliance with the supply chain management regulations.
14. As disclosed in note 39 to the financial statements, fruitless and wasteful expenditure of R1 126 504 was incurred, mainly due to SARS interest and penalties.

### **Material underspending of the budget**

15. The municipality has materially underspent the budget by R17 261 354 as disclosed in note 49 to the financial statements, mainly in infrastructure, housing and public safety votes. As a consequence, service delivery was affected negatively.

### **Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

16. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

17. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and their regulations and financial management (internal control).
  - MFMA
  - DoRA
  - Local Government: Municipal Systems Act of South Africa, 2000 (Act no. 32 of 2000) (MSA)
  - Municipal Structures Act of South Africa, 1998 (Act no.117 of 1998)

### **Predetermined objectives**

18. Material findings on the report on predetermined objectives, as set out on pages [XX] to [XX], are reported below:

### **Non-compliance with regulatory requirements**

#### No reporting against predetermined objectives, indicators and targets

19. The Tlokwe City Council did not prepare the annual performance report in terms of section 46 of the MSA and section 121(3)(c) of the MFMA.

#### Inadequate content of integrated development plan

20. The integrated development plan of the Tlokwe City Council did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

#### Lack of adoption or implementation of a performance management system

21. The Tlokwe City Council did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement,

review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

#### Internal auditing of performance measurements

22. The Tlokwe City Council did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

#### Existence and functioning of a performance audit committee

23. The Tlokwe City Council did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

#### Corroborating evidence does not agree with the reported explanations for major variances between planned and actual reported targets

24. Corroborating evidence provided as a basis for the explanations for major variances between the planned and the actual reported targets for selected objective did not agree in 78% with the reasons for variances reported.

#### **Usefulness of reported performance information**

25. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
  - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
  - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

#### Reported information not consistent with planned objectives, indicators and targets

26. The Tlokwe City Council has not reported on its performance against predetermined targets which is consistent with the approved integrated development plan.

#### Planned and reported performance targets not specific/measurable

27. For the selected objectives, 33% of the planned and reported targets were not:
- specific in clearly identifying the nature and the required level of performance;
  - measurable in identifying the required performance.

#### **Reliability of reported performance information**

28. The following criteria were used to assess the reliability of the planned and reported performance:
- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
  - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
  - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Reported targets not reliable when compared to source information

29. For the selected objectives, 23% of the reported targets were not reliable on the basis of the source information or evidence provided to support the reported in targets.

Reported targets not reliable as no/inadequate supporting source information was provided

30. For the selected objectives, 94% of the reported targets the reliability could not be established as sufficient appropriate audit evidence and relevant source documentation could not be provided for audit purposes.

**Compliance with laws and regulations**

**Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)**

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

31. Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality, which resulted in irregular expenditure as per the definition of "irregular expenditure" in section 1 of the MFMA.

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure

32. Expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality as required by section 15 of the MFMA.

The municipality did not manage unauthorised, irregular and fruitless and wasteful expenditure as prescribed

33. Unauthorised, irregular and fruitless and wasteful expenditure was not managed as prescribed in section 32 of the MFMA.

Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)

34. Proper record keeping and management was not in place resulting in requested information not being available or supplied with a significant delay, as required by section 62(1)(b).

Expenditure was not paid within the parameters set by the applicable legislation

35. Expenditure was not paid within the required 30 days from the receipt of an invoice, or such a period as prescribed in section 65(2)(e) of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

36. The municipality did not prepare financial statements in accordance with section 121(1) of the MFMA which fairly presents the state of affairs of the municipality, as corrections of material misstatements were made to the annual financial statements submitted for audit on 31 August 2010.

The internal audit unit was not functioning properly

37. The internal audit unit of the municipality did not fulfil its responsibilities as required by section 165 of the MFMA.

The audit committee was not functioning properly

38. The audit committee did not perform their functions and discharged their mandate adequately as required by section 166 of the MFMA.

## Internal control

39. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
40. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The accounting officer does not exercise oversight responsibility over financial and performance reporting and compliance with applicable laws and regulations. An effective organisational structure that places people with appropriate skills is not established as a vacancy rate of 36% exists within the municipality.

- **Financial and performance management**

The finance and supply chain management departments are understaffed which resulted in material amendments to the financial statements submitted for audit and non compliance to supply chain management regulations. Furthermore due to inadequate record keeping and record management, requested information was not always available as per agreed timeframes.

- **Governance**

Proper governance structures are not in place and not functioning effectively as ongoing monitoring and supervision by internal audit are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting. A fraud prevention plan is not documented and used as per the requirements of applicable legislation. The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice furthermore the annual financial statements and performance report are not reviewed prior to submission for audit.

*Auditor-General*

Rustenburg

30 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*